

Donlee Manufacturing Industries Limited

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Directors

R. H. Burns
R. P. K. Cousland
A. S. Donovan
J. C. Donovan
J. Fogarty
P. L. Murray
G. C. Stewart

Officers

A. S. Donovan, President
J. C. Donovan, Vice-President
J. Fogarty, Vice-President
P. L. Murray, Secretary-Treasurer

Auditors

Thorne Gunn & Co., Chartered
Accountants, Toronto

Legal Counsel

Salter & Apple, Toronto

Transfer Agent

Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg,
Calgary and Vancouver

Head Office

597 Trethewey Drive
Toronto, Ontario M6M 4B8

Bank

The Mercantile Bank of Canada
Toronto

Report to Shareholders

1973 was a year of frustration, disappointment—and ultimate success.

A highly satisfactory fourth quarter helped to boost sales to a record \$20.2 million. Net earnings in the final quarter were sufficiently high to wipe out the previously announced loss for the first nine months and to show a profit for the year overall.

Most importantly, however, the upsurge in both sales and earnings that was achieved during the fourth quarter has continued to gain momentum through 1974 to date.

To effect a conscientious review of the year, it is important to analyse both the problem areas and the success areas separately.

You will notice in the notes to the financial statement that income tax of \$236,393 was charged against earnings of \$263,127 leaving a net profit of \$26,171. The reason for the apparently extraordinary tax rate is to be found in the significant problems which occurred within **Automotive Industries Inc.**, our U.S. sun visor producer. This subsidiary suffered substantial losses early in 1973 as a result of unrealistically high production commitments. By mid-year, the management of our profitable Canadian counterpart company, Paramount Industries, had taken day to day control and subsequently turned the company around. While both the Canadian and U.S. divisions have been profitable since the fourth quarter, your company's consolidated profit

statement cannot reflect the full turn around for fiscal 1973 because the earlier losses in the U.S. totalling some \$300,000 cannot be offset against Canadian taxes applicable to Donlee's profits in Canada. Of course, Automotive Industries Inc. will have the benefit of this loss carry forward beneficially in 1974 and subsequent years.

Another problem area for your company during the year was the Gasket Division. The company incurred losses in 1973 and performance remained a disappointment. The Division was sold early in 1974 to its general manager, J. S. Lee. The net result of the sale is to improve your company's cash position. It also resulted in the withdrawal of Mr. Lee as an officer and director of the company.

The third problem area during the year was the pump operation which failed to achieve the sales and earnings expected. Accordingly, this operation was sold early in 1974 for cash.

The other Divisions of your company are vigorous and effective.

Paramount Industries is the largest of the Donlee divisions. Sales of automotive trim products were maintained at 1972 volumes despite the current market swing away from large cars. Paramount's early attention to small car trim products helped maintain Sales for the Division at acceptable levels.

Donlee Nuclear, after early growing pains, is maturing satisfactorily. The

Division's order book is at record levels now and the Canadian Government's aggressive sales campaign for Canadian reactors should, no doubt, result in additional sales in the future.

General Gear experienced a highly satisfactory increase in sales and earnings in 1973. During the year, the Gear Division was able to add several volume production run items which has markedly stabilized results from the "custom" side of the business.

Nuday sales and profits increased considerably during the year. A new range of tools was introduced successfully and continued healthy growth of this Division is anticipated.

Mobile Materials Handling Equipment also reported excellent growth in sales and profits. Sales of lift trucks and lift truck service attained record levels.

Radex Corp. produced a small profit for 1973. This Division has yet to achieve its full potential.

Donlee Plastic's results were satisfactory overall. In blow moulding, particularly, excellent sales were achieved. Roto-cast products were less successful, however new areas in this field look promising.

A relatively minor change is anticipated in the structure of your board. At the forthcoming annual meeting you will be asked to approve a special by-law reducing the number of directors from 9 to 7.

On balance, your company was stronger at the end of the year than at the beginning.

The strength of the Canadian dollar poses significant concern to your management in view of our heavy automotive industry sales in the U.S.

Prospects for the future are very encouraging.

On Behalf of the Board of Directors

A. S. DONOVAN
President

May 1, 1974

Statement of Consolidated Earnings

YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Sales	\$20,209,538	\$17,965,739
Expenses		
Cost of sales and expenses other than the under- noted	16,883,593	15,139,401
Depreciation and amortization	449,530	402,297
Interest		
Long term debt	133,008	146,553
Other	170,446	92,790
Selling and administrative expenses	2,309,834	1,856,232
	<u>19,946,411</u>	<u>17,637,273</u>
Earnings before undernoted items	<u>263,127</u>	<u>328,466</u>
Income taxes (note 5)		
Current	107,793	6,739
Deferred	128,600	134,750
	<u>236,393</u>	<u>141,489</u>
	26,734	186,977
Interest of minority shareholders in earnings of subsidiary	<u>563</u>	<u>947</u>
Net earnings for the year	<u>\$ 26,171</u>	<u>\$ 186,030</u>
Net earnings per share	<u>\$.07</u>	<u>\$.53</u>

Statement of Consolidated Retained Earnings

YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Balance at beginning of year	\$ 1,444,996	\$ 1,258,966
Net earnings for the year	<u>26,171</u>	<u>186,030</u>
Balance at end of year	<u>\$ 1,471,167</u>	<u>\$ 1,444,996</u>

Consolidated Balance Sheet—December 31, 1973

(with comparative figures at December 31, 1972)

Assets	1973	1972
Current Assets		
Cash	\$ 59,000	
Accounts receivable	2,695,786	\$2,535,298
Income taxes recoverable	8,405	96,114
Inventories, at the lower of cost and net realizable value	2,985,105	2,591,736
Prepaid expenses	51,761	26,269
	<u>5,800,057</u>	<u>5,249,417</u>
Fixed Assets		
Land, buildings and equipment, at cost	5,143,271	4,892,894
Less accumulated depreciation	<u>2,221,419</u>	<u>1,877,225</u>
	<u>2,921,852</u>	<u>3,015,669</u>
Other Assets		
Excess of cost over book value at dates of acquiring shares of subsidiaries	362,885	362,885
Patents, at cost less amortization	74,722	72,811
Other	48,774	58,838
	<u>486,381</u>	<u>494,534</u>
	<u>\$9,208,290</u>	<u>\$8,759,620</u>

Approved by the Board

A. S. DONOVAN, *Director*

P. L. MURRAY, *Director*

Liabilities	1973	1972
Current Liabilities		
Bank advances (note 2)	\$1,918,046	\$1,718,665
Accounts payable and accrued liabilities	2,994,654	2,738,166
Income taxes payable	79,132	44,181
Deferred income taxes	98,700	58,700
Principal due within one year on long term debt . .	296,779	203,908
	<u>5,387,311</u>	<u>4,763,620</u>
Long Term Debt (note 3)	1,102,482	1,392,837
Deferred Income Taxes	164,900	76,300
Interest of Minority shareholders in subsidiary . .	12,699	12,136
Shareholders' Equity		
Capital Stock		
Authorized—600,000 common shares without par value		
Issued —351,400 common shares	1,069,731	1,069,731
Retained Earnings	1,471,167	1,444,996
	<u>2,540,898</u>	<u>2,514,727</u>
	<u>\$9,208,290</u>	<u>\$8,759,620</u>
Long term leases (note 4)		

AUDITORS' REPORT

To the Shareholders of
DONLEE MANUFACTURING INDUSTRIES LIMITED

We have examined the consolidated balance sheet of Donlee Manufacturing Industries Limited and subsidiaries as at December 31, 1973 and the statements of consolidated earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE GUNN & CO.
Chartered Accountants

Toronto, Canada
April 19, 1974

Statement of Consolidated Source and Application of Funds

YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972)

Source of funds	1973	1972
Operations		
Net earnings for the year	\$ 26,171	\$186,030
Items not involving current funds		
Depreciation and amortization	449,530	402,297
Deferred income taxes	88,600	76,050
Interest of minority shareholders in earnings of subsidiary	563	947
	<u>564,864</u>	<u>665,324</u>
Disposals of fixed assets	31,134	33,142
Adjustments of cost of shares of subsidiaries		16,437
	<u>595,998</u>	<u>714,903</u>
Application of funds		
Additions to fixed assets	372,280	521,823
Reduction of non-current portion of long term debt	290,355	249,770
Other	6,414	2,101
	<u>669,049</u>	<u>773,694</u>
Decrease in working capital	73,051	58,791
Working capital at beginning of year	485,797	544,588
Working capital at end of year	<u>\$412,746</u>	<u>\$485,797</u>
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	\$ 59,000	\$ (8,724)
Accounts receivable	160,488	441,362
Income taxes recoverable	(87,709)	45,997
Inventories	393,369	54,843
Prepaid expenses	25,492	(30,596)
	<u>550,640</u>	<u>502,882</u>
Increase (decrease) in current liabilities		
Bank advances	199,381	473,665
Accounts payable and accrued liabilities	256,488	161,825
Income taxes payable	34,951	(29,497)
Deferred income taxes	40,000	58,700
Principal due within one year on long term debt	92,871	(103,020)
	<u>623,691</u>	<u>561,673</u>
Decrease in working capital	<u>\$ 73,051</u>	<u>\$ 58,791</u>

Notes to Consolidated Financial Statements

DECEMBER 31, 1973

Note 1. Basis of Consolidation

Subsidiary companies consist of the following :

Donlee Manufacturing Industries, Inc. and its subsidiaries

Donlee Plastic Products, Inc.

Automotive Industries, Inc.

Mobile Materials Handling Equipment, Inc.

The Nuday Co.

Radex Corporation

Mobile Materials Handling Equipment Limited

The Nuday Equipment Company of Canada (1968) Limited

all of which are wholly owned with the exception of Radex Corporation in which an 80% interest is held.

The statements of Donlee Manufacturing Industries, Inc. and its subsidiaries have been translated from United States dollars to Canadian dollars on the following basis : current assets and current liabilities, at the exchange rate (\$.9964) prevailing at December 31, 1973 ; fixed assets at the rates prevailing at the latter of the date of acquisition of any subsidiary or the date of purchase of the fixed assets ; long term debt at the rates prevailing at the date on which the debt was incurred ; revenue and expenses at the average rate of exchange during the year.

Note 2. Bank Advances

Bank advances are secured by a general assignment of book debts and inventories and by a \$1,850,000 demand debenture, bearing interest at the rate of 12% per annum. The debenture carries a second fixed and specific mortgage and charge on

(a) the land, buildings, machinery and equipment owned by the company,

(b) the company's right, title and interest in and to the land and premises held under lease, and a second floating charge on all its property, assets and rights, both present and future.

Note 3. Long Term Debt

	1973	1972
Serial debentures, Adjustment Assistance Board		
9½%	\$156,000	\$ 156,000
7¼%	897,000	1,053,000
The debentures mature on September 15, 1980 and are payable in monthly instalments of \$13,000 plus interest. The payment of the principal is secured by :		
(i) First fixed charge on land owned December 31, 1968 and buildings thereon ;		
(ii) Fixed charge on machinery and equipment now owned or to be acquired.		
9½% Promissory note	100,000	100,000
The principal is payable on October 15, 1974, the date of maturity. Interest is payable semi-annually.		
10% Mortgage payable	\$178,567	\$ 194,874
Mortgage maturing December 31, 1975 is payable U.S. \$2,908 monthly, blended principal and interest. Payment is secured by all fixed assets of Automotive Industries, Inc., except those pledged against chattel mortgages.		

Notes to Consolidated Financial Statements (Continued)

DECEMBER 31, 1973

Note 3. Long Term Debt (Cont'd)

	1973	1972
Finance contracts	<u>67,967</u>	<u>86,310</u>
Several finance contracts secured by equipment owned by Mobile Materials Handling Equipment Limited and leased to customers.		
Other		6,824
	<u>1,399,534</u>	<u>1,596,828</u>
Less principal due within one year included in current liabilities (at current rates of exchange \$296,779; 1972, \$203,908)	<u>297,052</u>	<u>203,991</u>
	<u>\$1,102,482</u>	<u>\$1,392,837</u>
Principal due within each of the next five years is as follows:		
1974	\$296,779	
1975	338,095	
1976	173,690	
1977	161,408	
1978	156,000	

Note 4. Long Term Leases

The company rents several buildings under long term leases. The aggregate of rentals incurred as an expense on these leases during 1973 was \$209,238. The aggregate minimum rental expense to be incurred under these leases during the five years ending December 31, 1978 will be \$848,525. The leases expire at varying dates to February 15, 1980.

Note 5. Income Taxes

The company's United States subsidiaries intend to file a consolidated income tax return which will result in a consolidated loss carry-forward of approximately \$300,000, which amount remains available to reduce consolidated taxable income of the subsidiaries in the years 1974 to 1978 inclusive. The tax effect of this loss carry-forward has not been reflected in these financial statements.

Note 6. Other Statutory Information

	1973	1972
Directors and senior officers		
Total remuneration	<u>\$254,530</u>	<u>\$231,879</u>
Number of persons	<u>12</u>	<u>12</u>

Note 7. Subsequent Event

Subsequent to December 31, 1973, the company sold the business carried on by its Gasket Division together with the division's inventories and fixed assets, and assigned the lease of the premises occupied by the division. The sale was effective March 29, 1974 upon which date the company received \$130,000 cash on account of the purchase price. The balance, amounting to approximately \$60,000, is payable by the purchaser on May 31, 1974. Final calculation of the balance will be made upon determination of the inventory of raw materials, work in progress and finished goods.

During the year ended December 31, 1973, the Gasket Division experienced a loss of \$24,700 before any allocation of corporate administrative overhead.

Operating Divisions

Paramount Industries

manufactures automotive trim items such as sun visors and glove compartments. They are equipped to do roll-forming, zinc die-casting, chrome plating of zinc and steel.



Automotive Industries Inc.,

manufactures automotive interior trim products. Process facilities include die-cutting, assembly and custom urethane foam moulding for the production of sun visors, door panels, and urethane foam components.



Donlee Nuclear

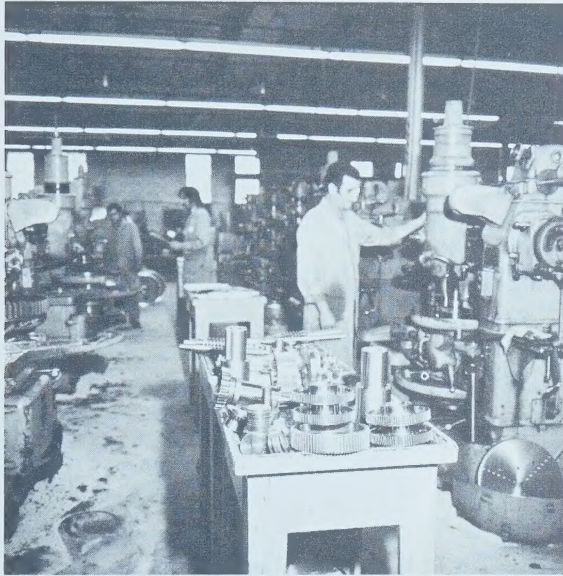
specializes in precision machining and assembling of long stainless steel tubes and housings, as well as related components, for nuclear reactors.



Mobile Materials Handling Equipment Limited

produces a range of materials handling equipment, including hand-lift pallet trucks, electric lift trucks, shelving, stacking, pallets and containers, for distribution in Canada and the U.S. The lift truck division services, rebuilds, rents and sells lift trucks of all sizes.





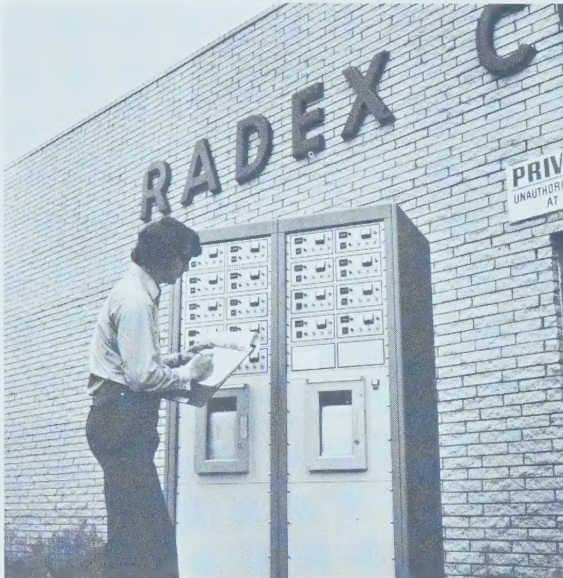
General Gear Company

specializes in the manufacture of custom and production gears and assembled transmission units for a wide range of industrial applications. Facilities provide for gun drilling and gear cutting up to ten feet in diameter.



Donlee Plastic

manufactures plastic products for automotive, industrial and consumer markets. They are equipped to do blow moulding, rotational moulding, vacuum forming, foaming processes, and the related assembling, packaging and finishing operations. Engineering services are provided for the design of all pertinent tooling.



Radex Corporation

designs and manufactures electronic equipment for monitoring all types of industrial equipment. The forging industry has made extensive use of these devices. Their systems have also been used in monitoring pollution control equipment, production machinery and weighing and devices.



The Nuday Co.

designs and assembles custom tools and service equipment for use by tractor repair outlets. These factory approved tools are sold to the service dealers for the large tractor manufacturers such as Ford, Massey Ferguson, John Deere, etc. Other products such as a pump pressure test kit are produced to industrial use.

